SNET also offers its Simple Solutions calling plan. *Id.* at Original Page 51. In per minute terms, the peak rate is $0.23 and the off-peak is $0.17.[4] Without any analysis it is quite obvious that Sprint Sense's pricing, with off-peak rates $0.07 below SNET's, is far more advantageous to the customer than SNET's Simple Solutions.[5] Although the SNET Simple Solutions offers volume discounts, they do not apply until the customer has spent $25.00 and are therefore not available to the smaller residential customers.

Hausman compares SNET's one rate plan with AT&T's $0.15 One Rate and claims that "SNET offers a discount of 10%-15% off the $0.15 per minute price depending on monthly calling volume." Hausman at 12. Contrary to Hausman's statement, however, SNET's rate plan, called SNET United Rate Plan, is identical to AT&T's. SNET offers a $0.15 rate with no

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[4] The direct dial rates are in initial 18 second and additional 1 second increments.

[5] Sprint Sense's peak rate of $0.25 is 9% above the SNET peak rate of $0.23; on the other hand, Sprint Sense's off-peak rate of $0.10 is 41% below SNET's off-peak rate of $0.17. Assuming the 75% of residential usage is off-peak, Sprint Sense rates are, on average, approximately 29% lower than SNET's. [(-.41*.75) + (.09*.25) = -28.5%]

SNET's per second billing (after an initial 18 seconds) does not significantly alter the discount analysis. For an off-peak 4.5 minute call, the Sprint Sense customer would pay $0.50, while the SNET Simple Solutions customer would pay $0.76. The Sprint Sense customer would pay 34% less than the Simple Solutions customer.

discounts.[6] *Id.* at First Revised Page 88. Thus, Hausman's claim is incorrect, and his "estimate that SNET's one-rate prices are approximately 17.5% lower than AT&T's one-rate prices" is similarly incorrect.

Hausman uses his estimate that the "overall SNET residential prices were about 18.4% less than AT&T' prices on average" (at 11) as the basis of his calculation of the change in consumer welfare. His inflated estimate of $6.2 billion per year, the first term of his consumer welfare function (at p. 14) is based on an estimate of the residential long distance market of $33.7 billion and the 18.4% decrease in prices.[7] Since, as demonstrated above, the percent decrease of 18.4% is far too high, the estimate of consumer welfare is correspondingly too high. Similarly, the second term of the function, which also relies on the percentage change in price, is too high.

In sum, Hausman's reliance on SNET's and AT&T's prices to forecast the extent to which RBOC entry into the long distance market would lead to rate decreases leads to exaggerated estimates of the benefits. Because his oversimplified view of the long distance market ignores the lower priced products offered by other long distance

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[6] The fact that there are no discounts on SNET's United Rate Plan was verified by a call to its customer service, 1-800-808-7638.

[7] $33.7*.184=$6.2

carriers, he has artificially inflated the amount of the rate decreases and the resulting benefits to consumers.

IV. WEFA'S ESTIMATES OF THE PURPORTED BENEFITS OF BELLSOUTH'S ENTRY ARE OVERSTATED.

BellSouth employed WEFA to examine the economic impact of its entry into the interLATA market in South Carolina. Based on this study, BellSouth claims that "an additional 13,000 new jobs will be created in South Carolina as a result [of Bell company in-region, interLATA entry] and that the total benefit of new long distance competition for South Carolinians will rise to $1.2 billion after five years." BellSouth at 83. The WEFA study and its heroic conclusions are facially implausible. Without extensive analysis, Sprint sets forth below some of the more serious flaws in the WEFA analysis.

First, as one of its long distance simulation assumptions, WEFA assumes that long distance prices will fall by 25 percent between 1996 and 2001 due to two factors: (1) higher levels of competition and (2) improved utilization of an efficient network. WEFA at 8. An overall price decrease of 25 percent is extremely optimistic. This decrease is greater than the decrease in rates during the late 1980's which resulted from significant decreases in access charges, as well as competition and more efficient network utilization. To attribute a greater decrease solely to BOC entry and more efficient utilization of the network

-- without any decrease in access charges -- is unconvincing.

WEFA does not specify which long distance rates it expects to fall by 5 percent each year (*Id.*) and gives no support for its assumption. As noted, the Hausman affidavit (and, more generally, BellSouth's application) focus on residential services only. In contrast, the WEFA model appears to apply the discount assumption to all long distance services, including both business and residential services. Given the marked difference in the characteristics of these two market segments, the application of one price decrease factor for both groups would be overly simplistic.

Although WEFA does not state its assumptions concerning price decreases from 2001 to 2006, it is likely that it assumed a continued decrease in prices of 5 percent. WEFA offers no explanation for failing to provide its assumption throughout the forecast period. However, clearly a 50 percent rate reduction--if this is what was used to continue the economic benefits in the last five years of the forecast--is unreasonable. It implies that the market will not reach an equilibrium after a few years, but rather that long distance carriers will continue to lower prices throughout the decade.

WEFA's assumption that prices will decrease is predicated on the assumption that prices for long distance service are increasing. As discussed above, the pricing analyses that show increases in long distance rates over the past few years are flawed because they do not take into account new services and promotional offerings. Because WEFA's pricing decrease assumption is based on an incorrect assumption about long distance pricing, the pricing decrease assumption necessarily must be incorrect as well.

In its "Derivation of Modeling Assumptions for the Long Distance Simulation," WEFA focuses on rate increases for older residential long distance products and completely ignores the new business and residential products introduced by existing and new carriers which offer lower rates and the promotions which provide discounts, free service or other benefits. Failure to include such offerings in the underlying modeling assumptions results in a distorted view of the current environment.[8]

Second, WEFA's stimulation is based on increased labor force participation and "new applications that enhance the viability of telework, telecommuting, and remote data, document, and information processing." WEFA at p. 8.

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[8] WEFA has failed to identify the source or to provide any specific information about the products underlying the average cost presented in Figure 2, "Long Distance Rates." It is obviously difficult to evaluate the analysis without such information.

However, long distance calling is not necessarily stimulated by telework or telecommuting. Rather than commute into work, employees perform the same functions at home. Because they are generally within the local calling area of their places of employment, stimulated usage is local, not long distance. Similarly, access to the Internet may be increasing, but the increase in calling is largely to local telephone numbers of the information providers. Thus, much of the additional calling generated by telework and telecommuting is local, not long distance.

In addition, WEFA's model may not accurately account for the specific demographics of South Carolina. A variety of factors may make telecommuting more or less attractive, such as the presence of congested urban areas making commuting more burdensome and costly, or the type of business involved, such as high technology areas versus traditional heavy industry work. Indeed, the example used by WEFA for "telework" centers is for Federal government centers near Washington, D.C. Washington is known to have one of the worst commuter congestion problems in the country along with substantial numbers of jobs in the technology sector. WEFA has done nothing to establish that South Carolina has comparable conditions. There is simply no reason to believe that the application of a national telecommuting trend to South Carolina would be appropriate.

WEFA refers to work done by Gil Gordon Associates which found that "the single biggest technology cost for telecommuting in the future will not be equipment, but rather monthly phone bills." *Id.* at p. 15. Only a portion of increases in the monthly phone bill will be due to long distance rates. The addition of multiple phone lines into the "teleworking" household for computers, fax machines, etc. and the use of business line service in addition to residential line service will play a major role in the increased phone bill. Due to the lack of detail provided by WEFA, it is unclear whether it has included such impacts in its model.

WEFA projects productivity gains and product improvements to be 2% greater in its long distance simulation than its baseline simulation. *Id.* WEFA provides no basis for this assumption of a significant gain above and beyond the baseline gains that would be projected based on efficiencies built into historical trends. WEFA considers "information technology...to have three prongs -- computer hardware, computer software, and telecommunications services." *Id.* at 13. WEFA does not discuss the link which it is making between productivity in the "information sector" and "telecommunications services." Nor does it discuss the link between "telecommunications services" and "long distance services" which BellSouth will be providing.

These are clearly important links which must be discussed in order to support any assumption concerning productivity gains due to lower long distance rates.

In Figure 3 WEFA presents the Consumer Price Indexes for Selected Communications Services and finds that prices are increasing. The percentage increase from 1991 through 1996 in Figure 3 is not as large as that shown in Figure 2; however, as noted, WEFA has omitted any information about the source or bases of Figure 2, making an evaluation of WEFA's statement impossible. *Id.* at p. 10. The Consumer Price Index for Telecommunications is an index for residential service only. As such, it has no relevance to the prices of services in the business market. Further, the index includes only a few volume discounts because it was developed in 1986 and updated in 1987 and 1988, well before the introduction of flat-rate pricing. Thus, it does not accurately reflect the current telecommunications environment. Prices from only a few competitors are included in the index, and it does not include the promotional offerings of carriers. Nor does it take into account new products, such as Sprint Sense or MCI's Friends and Family offerings, or MCI's recently introduced Sunday rate of 5 cents. Thus, it cannot be relied upon to demonstrate that prices to most consumers increased in 1996.

WEFA suggests that more households are taking advantage of the discounts, but that the average price is increasing because basic rates have risen. Because the Consumer Price Index for Telecommunications is an index for residential service only and includes only a few volume discounts, it does not accurately reflect the competitive products or the prices consumers pay for telecommunications services today.

WEFA claims that unit costs have decreased by 6 to 7 percent per year. *Id.* at p. 11. WEFA, however, offers no analytical justification for this estimate. Rather, it merely states that "[t]hese decreasing costs occur because of improvements and cost reductions in fiber optic electronics and switches." *Id.* WEFA's statement appears to ignore all other costs incurred by long distance carriers. For example, governmentally imposed costs, in particular payments for the Universal Service Fund ("USF"), Lifeline, and Telecommunications Relay Service have increased nearly threefold since 1989.[9] Other cost increases, especially marketing and promotional costs, have been substantial and thus must be accounted for.

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[9] For the last six months of 1989 the approximate monthly billing for these two services was $158.1 million; the FCC estimated the billings for the first half of 1996 to be $448.3 million. In addition, since 1993 carriers are required to pay for Telecommunications Relay Service ("TRS") based on their gross revenues.

Because of WEFA's use of extremely optimistic assumptions concerning price decreases and productivity gains and because of its use of inaccurate and inflated pricing data, its forecasted economic impact of BellSouth's entry into the interLATA long distance market in South Carolina forecasted by WEFA is overstated and fundamentally unreliable.

V. LEC ENTRY MAY NOT INTENSIFY COMPETITION FOR LOW VOLUME CUSTOMERS.

Schmalensee suggests that low-volume customers may be less costly for BellSouth to serve and therefore "BellSouth's entry holds out the prospect of more intensified competition for this segment and more benefits to those consumers than for the other segments where competitions is relatively stronger." Schmalensee at 16. It is not necessarily the case, however, that local exchange carriers will compete for such low volume customers. SNET, for example, states in its Tariff FCC No. 3, Original Page 17, that, "by written notice to the Customer, it may discontinue service in the same manner as provided for nonpayment of overdue charges if after three full billing cycles the service has not been used." Although it is not clear whether or not SNET routinely cancels such low volume accounts since it states that it "may discontinue service" (emphasis added), the statement reflects a disinclination to serve the residential customer who does not place many long

distance calls. Similarly, BellSouth's proposal of a single residential MTS product does not indicate an aggressive pursuit of low-volume customers. Thus, the local exchange carriers' proposed and existing offerings for residential customers do not provide evidence of aggressive competition for the low-volume customers.

VI. CONCLUSION.

BellSouth has failed to support its allegations of benefits to consumers from its entry into the long distance market. The unrepresentative selection of long distance products and unsupported assumptions distort the estimations of consumer benefits produced by its affiants. Even BellSouth's proposed tariff does not demonstrate any competitive initiative or the lower rates as its affiants predict.